



Comptroller & Auditor General

**Governance of the States of Jersey
Pension Schemes**

19 June 2014



JERSEY AUDIT OFFICE

Governance of the States of Jersey Pension Schemes

Introduction

- 1.1 The States of Jersey operates two statutory funded pension schemes to provide occupational pensions to employees of States funded bodies and other entities connected to the States:
 - the Public Employees Contributory Retirement Scheme (PECRS) covers all States employees other than teachers. It has 13,250 members and assets of £1,370m at 31 December 2012 and is overseen by a Committee of Management; and
 - the Jersey Teachers Superannuation Fund (JTSF) has 2,373 members and assets of £327m at 31 December 2012. It is overseen by a Management Board.
- 1.2 The Committee of Management (for PECRS) and the Management Board (for JTSF) perform many but not all of the functions of pension scheme trustees in the private sector. Whilst the two schemes are legally distinct, there is a common professional independent Chairman for the Committee of Management and Management Board. The schemes have many professional advisors in common and the administration of the schemes is undertaken by the same team within the States Treasury.
- 1.3 The States and pension scheme members have a common interest in the good governance of the schemes: the assets involved are substantial, pension provision is a key part of the terms and conditions of States employees and, at retirement, pension benefits are for many people their most valuable asset.
- 1.4 The pensions landscape has changed. Globally the true cost of pension provision has increased significantly as life expectancy has increased and investment returns have fallen. In the UK most private sector final salary schemes have closed to new members and the major public sector schemes are being reformed.
- 1.5 In the United Kingdom it is proposed that from 2015 the Pensions Regulator's responsibility for setting standards for the administration and governance of pension funds is extended to public sector schemes. This has placed an increased emphasis on the governance of UK public sector pension schemes, including the funded Local Government Pension Scheme.
- 1.6 In Jersey the States passed a Law to make major changes to PECRS in May 2014. The Law and associated Regulations when made will lead to significant changes to the scheme from January 2015 to ensure that the scheme is affordable and sustainable.

Objectives and scope of this review

- 2.1 The review considers the extent to which the arrangements for the administration and governance of PECRS and JTSF comply with best practice (including that published by the UK Pensions Regulator) and, as appropriate, make recommendations for improvement.
- 2.2 In doing so:
- it considers the States' response to recommendations made by my predecessor in his report 'Pension schemes for States' employees – governance' published in 2008; and
 - recognises that much of the best practice published by the UK Pensions Regulator is specific to UK pensions legislation that is not replicated in Jersey.
- 2.3 The planned changes to PECRS scheme benefits fall outside the scope of this review. However, at the same time there are planned changes to the scheme's governance to increase the influence over the operation of the scheme by the States. These planned governance changes are reflected in this report.
- 2.4 In this report we evaluate performance and direction of travel since the 2008 review by my predecessor using the 'traffic lights' set out in Exhibit 1.

Exhibit 1: Evaluation of performance and direction of travel

Evaluation	Meaning
Evaluation of performance	
Green	No action required
Amber	Some action required
Red	Urgent action required
Direction of Travel	
Positive	Clear improvement since previous evaluation
Neutral	Broadly unchanged since previous evaluation
Negative	Clear deterioration since previous evaluation

Background

- 3.1 When he reported in 2008, my predecessor concluded that:
- governance and management of PECRS have followed best practice for such schemes; and

- until April 2007, the governance and administration of the JTSF did not follow best practice. This meant that appropriate service and support were not provided to scheme members and the States' interests as employer were exposed to financial risk. However, reforms were implemented starting from April 2007. These included the formal composition of a Management Board and transfer of the administration of the scheme to the Dedicated Pensions Unit within the States Treasury.

Areas considered by the previous Comptroller & Auditor General

4.1 In Exhibit 2, I consider the current position in respect of the areas considered by my predecessor in 2008. Significant progress has been made in addressing the substantial weaknesses in respect of JTSF identified by my predecessor. Enhancements to governance have also been made in respect of PECRS.

Exhibit 2: Areas considered by the previous Comptroller & Auditor General

Best practice	PECRS	JTSF
Governing body composition – representation for interest groups		
Best practice involves representatives both of employers (including employers other than the principal employer) and members of the scheme (whether active, pensioner or yet to draw their pension).	<p>2008: Committee of Management. Appointment by the States on nomination of Treasury and Resources Minister, arranged with interested parties.</p> <p>2014: Whilst there is a balance between 'employer' and 'employee' members with an independent chairman, there is no specific representation for admitted body employers or retired members. Planned reforms will introduce such representation from January 2015.</p>	<p>2008: Previously no discrete governing body for JTSF with responsibility resting with the Education Committee and then the Education Minister.</p> <p>2014: Balanced composition of 'employer' and 'employee' members with an independent chairman. However, no specific representation for 'accepted schools' or retired members.</p>
Direction of travel	Positive	Positive
Evaluation	Green	Amber

Best practice	PECRS	JTSF
Governing body – rotation of members		
Best practice puts limits on total period of service to allow new perspectives on the governing body.	<p>2008: No formal arrangements for rotation of members.</p> <p>2014: No formal arrangements for rotation of members. However, planned reforms envisage maximum service of 10 years from January 2015.</p>	<p>2008: Question of rotation did not arise whilst Education Committee was governing body.</p> <p>2014: No formal arrangements for rotation of members. However, as the Management Board was only established in 2007, the issue of long service has yet to arise.</p>
Direction of travel	Positive	Neutral
Evaluation	Green	Amber
Relationship with States as employer		
Best practice involves a clear allocation of responsibilities between the principal employer and the governing body and effective working relationships between them.	<p>2008: Follows best practice to the extent possible within legislative constraints.</p> <p>2014: Situation unchanged. However, proposed changes from January 2015 including statutory duty for Committee of Management to consider interests of all the stakeholders and to ensure that the States has sufficient understanding of issues surrounding any decisions impacting on costs.</p>	<p>2008: Management Board follows best practice to the extent possible within legislative constraints.</p> <p>2014: Situation unchanged.</p>
Direction of travel	Positive	Neutral
Evaluation	Green	Green

Relationship with Administrators		
Best practice involves appropriately resourcing the administration function with appropriate expertise and clear standards for administration.	<p>2008: Statutory responsibility for administration rests with Treasurer. Administration undertaken by Dedicated Pensions Unit in Treasury and Resources Department.</p> <p>2014: Position unchanged. Documentation in place specifying service to be provided and service standards with regular reporting of performance.</p>	<p>2008: Administration undertaken by a single member of staff in the Education Department giving rise to significant administration risks.</p> <p>2014: Administration now undertaken by Dedicated Pensions Unit in Treasury and Resources. Documentation in place specifying service to be provided and service standards with regular reporting of performance.</p>
Direction of travel	Neutral	Positive
Evaluation	Green	Green
Governing Body's Procedures		
Best practice involves a Board with appropriate committees, regular meetings and comprehensive minutes and agendas.	<p>2008: Committee of Management appears to have followed best practice.</p> <p>2014: Full programme of meetings for the Committee of Management and its committees with comprehensive agendas and minutes.</p>	<p>2008: Anticipated that Management Board would follow best practice.</p> <p>2014: Full programme of meetings for the Management Board and its committees with comprehensive agendas and minutes.</p>
Direction of travel	Neutral	Positive
Evaluation	Green	Green

Appropriate relationship with advisors		
Best practice involves periodic review and tendering of services of actuarial, investment and legal advisors, clear specification of service standards and effective monitoring of performance.	<p>2008: Appointment of advisors following competitive tendering.</p> <p>2014: Formal consideration of grounds for renewal of contracts but sometimes falls short of competitive tendering. Benchmarking to support competitiveness of prices in such circumstances is informal. Changes in arrangements for appointment of advisors are planned, giving a greater role for Treasury and Resources. Less reliance on separate legal advice is planned with more reliance on advice from the Law Officers' Department.</p>	<p>2008: Investment advisors appointed by Treasury and Resources Department, continued use of Government Actuary's Department, appointment of auditors by new Management Board.</p> <p>2014: Formal consideration of grounds for renewal of contracts but sometimes falls short of competitive tendering. Benchmarking to support competitiveness of prices in such circumstances is informal.</p>
Direction of travel	Positive	Positive
Evaluation	Amber	Amber

Relationship with scheme members		
Best practice involves regular, relevant communication with active (contributing), deferred (no longer contributing but not drawing pension) and pensioner members, including through electronic means.	<p>2008: Effective communication with scheme members including newsletters and annual benefits statements.</p> <p>2014: Website developed to provide information to deferred and pensioner members.</p>	<p>2008: Ineffective communication with scheme members.</p> <p>2014: Communication with scheme members aligned with arrangements for PECRS. States' website includes useful information.</p>
Direction of travel	Positive	Positive
Evaluation	Green	Green

Recommendations

- R1** Secure representation for pensioners and 'accepted schools' as a group on the JTSF Management Board.
- R2** Where advisor contracts are not subject to formal tendering, adopt robust documented processes so that the Committee of Management/Management Board can satisfy themselves that the proposed charges are competitive.

Other areas evaluated

- 5.1 In the course of my review I evaluated the performance of the schemes in other areas by reference to UK Pensions Regulator best practice. I summarise the results of my work in Exhibit 3.

Exhibit 3: Other areas evaluated

Area	PECRS	JTSF
Knowledge and Understanding of members of governing bodies		
<p>Being able to demonstrate the relevant knowledge and understanding to serve as an informed member of a governing body is a cornerstone of good governance.</p>	<p>Some members of the Committee of Management have significant relevant experience. Relevant training is provided. However, structured assessment of training needs driving personal training plans is not undertaken. Proposed changes from January 2015 would entail placing an expectation on members of the Committee of Management to evidence their commitment to knowledge and training through adoption of the CIPFA's (Chartered Institute of Public Finance and Accountancy) Pensions Knowledge and Skills Framework.</p>	<p>Some members of the Management Board have significant relevant experience. Relevant training is provided. However, structured assessment of training needs driving personal training plans is not undertaken.</p>
Evaluation	Green	Amber
Record keeping		
<p>High standards of record keeping about members are necessary to ensure that accurate benefits are paid to members and their dependents.</p>	<p>Significant progress has been made in improving the quality of data. Although there have been some errors in payments as a result of data deficiencies, internal audit reports indicate a strong commitment to improvement. Monthly discrepancy reports highlighting errors and their correction are prepared. However, there has been no</p>	<p>Substantial work was required to capture and validate data as a result of migration from an Access database to a professional pensions administration system. A 100% validation exercise was undertaken to ensure the completeness and accuracy of capture of data from the former database and paper files. Internal audit reports indicate a strong</p>

Area	PECRS	JTSF
	formal benchmarking of data quality against, for example, the standards published by the UK Pensions Regulator.	commitment to improvement. However, there has been no formal benchmarking of data quality against, for example, the standards published by the UK Pensions Regulator.
Evaluation	Amber	Amber
Administration costs		
Effective control over administration costs helps to ensure that unnecessary expenditure is avoided.	Budgets are set and scrutinised by the Committee of Management and performance against budget is monitored. However, there is no systematic formal benchmarking of administrative costs, for example against data published by the UK Pensions Regulator in April 2014.	Budgets are set and scrutinised by the Management Board and performance against budget is monitored. Potential savings as well as access to a wider range of investment classes are being secured by participation in the Common Investment Fund. However, there is no systematic formal benchmarking of administrative costs, for example against data published by the UK Pensions Regulator in April 2014.
Evaluation	Amber	Amber

Recommendations

- R3** Extend participation in the CIPFA Knowledge and Skills Framework to the JSTF Board of Management.
- R4** Measure quality of member data held for PECRS and JTSF against the UK Pensions Regulator's data quality standards.
- R5** Undertake external benchmarking of pension administration costs for PECRS and JTSF.

Conclusion

- 6.1 When my predecessor reported in 2008 he highlighted significant deficiencies in the governance of JTSF which were then only just beginning to be addressed: there has been significant progress in response to his recommendations.
- 6.2 The governance arrangements of PECRS compare well against UK best practice. The planned reforms to PECRS will enhance those arrangements.
- 6.3 However there are some areas where further improvements could be secured in the governance of both schemes.

Appendix 1 Summary of Recommendations

- R1** Secure representation for pensioners and 'accepted schools' as a group on the JTSF Management Board.
- R2** Where advisor contracts are not subject to formal tendering, adopt robust documented processes so that the Committee of Management/Management Board can satisfy themselves that the proposed charges are competitive.
- R3** Extend participation in the CIPFA Knowledge and Skills Framework to the JSTF Board of Management.
- R4** Measure quality of member data held for PECRS and JTSF against the UK Pensions Regulator's data quality standards.
- R5** Undertake external benchmarking of pension administration costs for PECRS and JTSF.



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